

Message Text

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SUBJECT: PETROAVANCE - VENEZUELA '79 PROMOTION AND SALES GROUP

REF: A) USDOC 15010, B) QUITO 5918

1. THE EMBASSY RECOMMENDED IN PARA 2 OF REF B THAT
A FORMAL GROUP VISIT IN A TECHNICAL SEMINAR/MISSION
FORMAT IS NOT AN APPROPRIATE VEHICLE FOR PETROAVANCE
PARTICIPANTS TO MAKE PRODUCTIVE BUSINESS CONTACTS IN
ECUADOR, AND THAT THE KEY PRODUCT UNIVERSE IN ECUADOR
IS EXTREMELY SMALL.

2. CURRENTLY ONLY FIVE FIRMS HAVE THE POTENTIAL
TO PRODUCE PETROLEUM AND/OR NATURAL GAS; THESE FIRMS
ALSO MAKE THE MAJOR FINAL PURCHASING DECISION IN THE SECTOR. CEPE
(THE STATE PETROLEUM CORPORATION) AND TEXACO ARE BY FAR
THE LARGEST BUYERS OF PETROLEUM EQUIPMENT. THE \$31
MILLION EXPLORATION AND IMPROVED RECOVERY WORK PROGRAM
FOR 1978 BEING CARRIED OUT BY CEPE/TEXACO, THE ONLY
SIGNIFICANT EXPLORATION ACTIVITY NOW GOING ON IN
ECUADOR, IS LARGELY COMMITTED. CEPSCO (A SUBSIDIARY
OF THE U.S. FIRM CITY INVESTING) HAS JUST STARTED A MINOR
PETROLEUM PRODUCTION OPERATION. YPF (THE STATE ARGENTINE
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OIL CORPORATION), WHICH HOLDS A PETROLEUM CONCESSION
AREA, HAS MET WITH LITTLE SUCCESS THUS FAR AND WILL NOT
BE MAKING ANY MAJOR PURCHASES THIS YEAR. THE U.S. FIRM
NORTHWEST, WHICH HOLDS A NATURAL GAS CONCESSION IN THE
GULF OF GUAYAQUIL, HAS NOT CARRIED OUT ANY SIGNIFICANT
ACTIVITY IN ECUADOR FOR SEVERAL YEARS, DUE TO A DIS-
AGREEMENT WITH THE GOE OVER THE ULTIMATE USE OF THE GAS.

DESPITE A RECENT MODIFICATION OF THE GOE HYDROCARBONS LAW, IN AN APPARENT ATTEMPT TO ATTRACT NEW FOREIGN OIL FIRMS, NO CONTRACTS BETWEEN THE GOE AND NEW FIRMS HAVE BEEN CONCLUDED THUS FAR. THE PLANNED CHANGE FROM MILITARY TO CIVILIAN RULE SCHEDULED FOR SOMETIME IN LATE 1978 OR EARLY 1979 MAY FURTHER DELAY CONTRACTURAL ARRANGEMENTS WITH NEW FOREIGN FIRMS.

3. MOST OF THE OTHER FIRMS NOW IN THE SECTOR ARE SUB-CONTRACTORS (E.G., DRILLERS, CONSTRUCTION FIRMS) FOR THE FIVE POTENTIAL PRODUCERS, OR SALES REPRESENTATIVES FOR OVERSEAS SUPPLIERS. DRILLERS AND CONSTRUCTION FIRMS WHICH WORK UNDER SUB-CONTRACT TO TEXACO USE ALMOST EXCLUSIVELY MATERIALS SUPPLIED BY TEXACO, WHILE CEPE MAKES MOST PURCHASING DECISIONS FOR ITS SUBCONTRACTORS. ONE PROBLEM THAT SALES REPRESENTATIVES FACE IN SELLING GOODS TO THE LEADING PRODUCERS IS THE GOE POLICY WHICH ALLOWS A PRODUCER TO IMPORT ITEMS DUTY-FREE, WHILE SALES REPRESENTATIVES MUST PAY A DUTY UNLESS THE GOODS ARE PURCHASED IN THE PRODUCER'S NAME. THUS, EXCEPT IN CASES OF SHORTAGES OR IMMEDIATE NEED, THE PRODUCERS BUY THEIR EQUIPMENT DIRECTLY FROM OVERSEAS SUPPLIERS RATHER THAN LOCAL REPRESENTATIVES.

4. ALMOST ALL FUTURE MAJOR PETROLEUM INFRASTRUCTURE PROJECTS WILL BE UNDER THE DIRECTION OF CEPE. FOR
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SOME TIME, CEPE HAS BEEN PLANNING THE CONSTRUCTION OF THE MAJOR PIPELINES FROM ESMERALDAS TO QUITO AND FROM QUITO TO SHUSHUFINDI. DESPITE NUMEROUS DELAYS, ALMOST ALL MATERIALS NEEDED FOR THE LINES HAVE BEEN PURCHASED, AND THE POTENTIAL WINNING CONSTRUCTION FIRMS ARE LIMITED TO THOSE WHICH PRE-QUALIFIED SOMETIME AGO. OTHER SMALLER PIPELINES PROPOSED BY CEPE HAVE BEEN GIVEN A LOW PRIORITY UNTIL THE TWO ABOVE PIPELINES ARE WELL UNDERWAY. A POTENTIAL EXPANSION BY CEPE OF THE STATE REFINERY HAS BEEN IN LIMBO FOR SOME TIME. SIR WILLIAM HALCROW IS DOING A FINAL DESIGN OF A PERMANENT MARITIME TERMINAL FOR THE REFINERY., ALTHOUGH THERE ARE APPARENTLY SOME SNAGS IN THE PROJECT. CEPE HAS JUST ANNOUNCED THE PLANNED CONSTRUCTION OF A \$11 MILLION STORAGE FACILITY NEAR GUAYAQUIL FOR PETROLEUM FUELS. THE PROPOSED AMMONIA/UREA PLANT WILL NOT BE STARTED, IF EVER, UNTIL THE IMPOASSE BETWEEN NORTHWEST AND GOE IS RESOLVED. BEICIP (FRENCH) AND PROCONSULT (ECUADOREAN) ARE NOW DOING A FEASIBILITY STUDY ON A PROPOSED PETROCHEMICAL COMPLEX, POTENTIALLY THE LARGEST PROJECT EVER IN ECUADOR (SEE QUITO A-22). RESULTS OF THE STUDY WILL NOT BE KNOWN BEFORE LATE 1979.

5. AS MENTIONED IN REF B, THERE IS LIKELY TO BE A
DECISION-MAKING VACUUM AT CEPE AND THE NATURAL RESOURCES
MINISTRY LATER THIS YEAR AS THE FORMAL TRANSFER OF
POWER FROM A MILITARY TO A CIVILIAN GOVERNMENT DRAWS
NEARER.
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